

Comparison of the third INPAG Exposure Draft and UK-Irish GAAP and the Charities SORP (FRS102)

Overview

This paper considers the development of the International Non-Profit Accounting Guidance (INPAG) and looks at how its approach compares with the current UK-Irish Generally Accepted Accounting Practice (GAAP) with particular reference to the Charities Statement of Recommended Practice (FRS102) – the SORP. INPAG looks to adapt the International Financial Reporting Standard for Small and Medium sized Enterprises (IFRS for SMEs) for use by non-profits.

The exposure draft process for the INPAG guidance involved three exposure draft consultations with each exposure draft (ED) covering particular parts of INPAG. The first consultation, which closed for comment on 31 March 2023, considered four main topics:

- description of NPOs/Reporting Entity
- framework for INPAG
- financial statement presentation
- narrative reporting.

The second ED, which closed for comment on 15 March 2024, considered the following topics:

- expenses on grants and donations
- revenue
- inventories
- foreign exchange translation
- other adaptations to IFRS for SMEs considered necessary to deal with transactions undertaken by non-profits.

The final, third ED considers the following topics:

- fair value measurement
- investment in associates
- joint arrangements
- investment property
- plant, property and equipment
- intangibles other than goodwill
- business combinations including goodwill
- leases
- liabilities and equity claims
- expenses
- impairment of assets

- related party disclosures
- specialised activities
- fund accounting
- supplementary information
- transition to INPAG
- illustrative financial statements
- INPAG Practice Guide 1 –supplementary statements.

The closing date for comment on this third INPAG ED is 16 September 2024. The intention is to conclude the consultation exercise on the whole of INPAG by the end of 2024 and then issue the final guidance in 2025. It will then be up to individual jurisdictions across the world to decide whether to adopt INPAG into their GAAP.

Why accountants should know about INPAG

The development of INPAG should interest accountants who are working in the non-profit sector or have non-profit clients which are:

- charities and non-profits operating outside UK-Ireland either in jurisdictions that have no non-profit financial reporting framework or in receipt of funding from international donors which may require reporting under INPAG
- wishing to understand what developments that might be brought into GAAP in respect of Public Benefit Entities in the future. For example, the charities SORP has discretion to change the format of the financial statements and the trustees' annual report
- wanting to stay aware of international developments and the potential for INPAG to influence the future of GAAP and the SORP.

How to read this paper

The conclusions section of this paper (Part A) considers only those topics covered in the proposed adaptations part of the ED. This is so that the accountant can read this paper in conjunction with the topics covered in that opening part of the ED. Those points from the INPAG guidance that have not picked up in the opening discussion of adaptations are then covered off in the analysis (Part B) of this paper. It is recommended that for any topic(s) of interest to the accountant that both the conclusions and the analysis parts of this paper are read. Part C sets out how to engage further with the development of INPAG.

Methodology

This paper reviews the key features of INPAG and compares these to the current UK-Ireland Generally Accepted Accounting Practice (GAAP) of FRS102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, and also the FRS100: Application of Financial Reporting Requirements and the Charities Statement of Recommended Practice FRS102 (SORP). Reference is also made to UK and Irish company law requirements for reporting by non-profit companies. The changes to UK-Irish GAAP effective for financial periods beginning on or after 1 January 2026 are therefore not considered.

The INPAG ED has an introduction which is followed by 13 sections covering the proposed adaptations of the International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) that are considered of particular note; the questions covered in this

part of the ED are only a selection taken from the full list of questions. (See pages 20 to 22 of the ED PDF document for the full list.) The ED then moves on to set out the complete guidance sections of the INPAG which have been put out for comment in the ED together with the related application guidance for those sections with questions for comment posed on each of these sections. This part comprises 22 guidance sections.

The format of this paper follows the sequence of the ED. The paper offers some initial conclusions (Part A) which is followed by the analysis (Part B). To minimise confusion where a remark in the adaptation column cross refers to the text of the INPAG guidance section(s) or application guidance this paper refers to these as the 'guidance sections' or 'application guidance' respectively in order to distinguish them. In each table in Part A and Part B of this paper the left hand column refers to the INPAG Exposure Draft (ED) with the comparison made with GAAP on the right hand side. The intention is to identify the main areas of difference from current GAAP.

The paper considers matters of definition, accounting treatments and accounting policies and therefore any differences in disclosure requirements are not considered.

Part A – Conclusions

Since GAAP and INPAG share a foundation in applying the IFRS for SMEs there is much in common, however preparers of charity accounts under the SORP will find a number of key differences and these are set out in the table below. Since INPAG could be either an influence on GAAP or be adopted in the future as new UK-Irish GAAP, the author recommends engagement by practitioners with the INPAG development process.

ED proposed adaptations to the approach taken by IFRS for SMEs by INPAG	Observation on the approach taken by INPAG with reference to GAAP
<p>Section 1 – fund accounting</p> <p>INPAG uses the terminology of restricted and unrestricted funds. INPAG defines restricted funds as existing: '... when there is a legal or equivalent requirement to separately track resources and their use, or there is a reasonable expectation by an individual or group of stakeholders that resources that are used for a specific set of activities will be tracked. Separate accounting records for each fund must be kept comprising income, expenses, assets and liabilities'.</p> <p>In a reference back to accounting for income from grants INPAG holds that: 'Enforceable grant arrangements (EGAs), a type of grant described in INPAG Section 23, are proposed to be disclosed as part of funds with restrictions even if they do not have a fund balance'.</p>	<p>The approach taken by INPAG will be very familiar to users of the SORP as the SORP distinguishes between restricted funds and unrestricted funds. Restricted funds are then differentiated between restricted income and endowment funds. (INPAG may consider endowment funds in a future update).</p> <p>The SORP's approach to fund accounting is set out in module 2. The SORP requires transactions by fund to be identified (paragraph 2.27).</p> <p>The SORP (see review of ED2) does not have EGAs as a classification of grant income. The SORP does hold that some grants can be restricted as to purpose/ use and these form part of restricted funds (module 5 paragraph 5.18). By convention nil balances in current and prior year are disregarded see SORP module 4 paragraph 4.8 and module 10 paragraph 10.7. In terms</p>

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<p>Also INPAG provides for: 'Internally designated funds are presented as part of funds without restrictions'.</p>	<p>of fund accounting the SORP only requires the separate disclosure of balances on material funds- module 2 paragraph 2.28.</p> <p>The SORP has a similar approach in classifying designated funds as a component of unrestricted funds (paragraph 2.7).</p>
<p>Section 2 – fund accounting disclosures</p> <p>INPAG takes a different approach to the SORP in respect of the financial statements. ED3 has changed tack from ED1 where it proposed a requirement for the separate presentation of funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses. ED3 replaces this with disclosures by way of a note.</p> <p>The disclosure by way of note covers:</p> <ul style="list-style-type: none"> • fund purpose • income and expenses • transfers between funds • fund balances • funds with negative balances. 	<p>The SORP requires the differentiation between restricted and unrestricted funds in the Statement of Financial Activities (SoFA- module 4 paragraph 4.9) unless immaterial (paragraph 4.11).</p> <p>The SORP (module 2 paragraph 2.29 and table 1) includes all the disclosures that INPAG has except for negative fund balances (this is covered in the trustees' annual report module 1 paragraph 1.24). The SORP also requires an analysis of assets and liabilities by type of fund if not shown on the balance sheet (paragraph 2.29).</p>
<p>Section 3 – Classification of expenses</p> <p>INPAG proposes a rebuttable presumption that reporting of expenses is by their nature in the Statement of Income and Expenses (illustrative statement given on page 192). An alternate basis is permitted, by function or a mix of nature and function, but this will require additional disclosure and the provision of the analysis of expenses by nature as a note.</p> <p>INPAG advises that: 'A nature of expenses classification was chosen as the default as it was thought likely to be easier to implement.'</p>	<p>The SORP takes a different approach with all larger charities (defined as those with an income above £500,000 or €500,000) required to report in the SoFA on an activity basis (module 4 paragraph 4.6) but smaller charities can opt to report differently.</p> <p>The SORP allows smaller charities to report on any basis (paragraph 4.22) including by nature of income and expenditure (paragraph 4.23) but requires specific items to be disclosed in the SoFA (paragraph 4.24).</p>
<p>Section 4 – Classification of expenses- cost allocation</p> <p>INPAG holds that: 'NPOs must calculate the cost of the resources used to deliver each identified activity or function' if the mixed or function basis for the classification of expenses is chosen.</p>	<p>In having a default of reporting on an activity basis the SORP (module 8) takes a similar approach to cost identification and allocation and apportionment.</p>

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<p>It proposes 3 types of cost: direct, shared and support costs. The method for allocating/apportioning costs must ensure 'faithful representation', 'be reasonable' and 'consistently applied'.</p> <p>In respect of support costs: 'NPOs should be able to choose whether to allocate all costs or retain support costs as a single category based on the information needs of the users of their financial reports'.</p>	<p>The SORP has the same three types of cost: direct, shared and support (paragraph 8.8). The SORP also requires the method(s) chosen are reasonable and consistent.</p> <p>Support costs are fully absorbed but detail on them is given by way of note (paragraph 8.13 and table 4) but requires what it defines as governance related costs to be separately shown. A single category as a line item is not permitted in the SoFA.</p>
<p>Section 5 – Classification of expenses – disclosures</p> <p>Irrespective of the basis of expense classification chosen in the Statement of Income and Expenses, INPAG will require four areas of disclosure in the notes to the financial statements:</p> <ul style="list-style-type: none"> • benefits received by volunteers, and any losses, write offs and special payments (including losses due to fraud) • fundraising costs • short-term employee costs • amounts paid to key management personnel and those charged with the governance of an NPO. 	<p>The SORP requires certain items of expense are disclosed (mainly found in module 9). The required items are similar but the SORP has more items.</p> <p>In respect of the INPAG proposals, the SORP considers all these:</p> <ul style="list-style-type: none"> • general volunteers are not recognised (paragraph 6.18) but costs related to retaining them are (paragraph 4.52) and ex gratia payments are disclosed (paragraph 9.25) and mention is made of material fraud (paragraph 4.15). • fundraising costs are included in expenditure on raising funds (paragraph 4.44) • short term employee costs are included in wages and salaries (paragraph 9.26) • The SORP distinguishes trustee remuneration (paragraphs 9.6 and 9.7), trustee expenses (paragraphs 9.11 and 9.12) and related party disclosures extend to total cost of key management personnel (glossary and paragraph 9.32). <p>The SORP's additional items relate to:</p> <ul style="list-style-type: none"> • Audit, independent examination and other financial service fees (paragraph 9.23) • A full analysis of total staff costs and employee benefits (paragraph 9.26) • Salaries in bands where amount paid

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<p>INPAG notes that: ‘To avoid duplication, the expense disclosure requirements will be met as long as they appear in the financial statements.’</p>	<p>exceeds £60,000 or €70,000 (paragraph 9.30),</p> <p>Unlike INPAG the SORP does not explicitly rule out duplication (paragraph 4.26). The SORP also notes certain items are always considered material (paragraph 9.3) irrespective of amount.</p>
<p>Section 6 – Fundraising costs</p> <p>INPAG uses three categories to analyse fundraising costs:</p> <ul style="list-style-type: none"> • donations, gifts and similar transfers • commercial and trading • investment management. <p>INPAG does clarify that: ‘Commercial and trading does not include activities relating to an NPO’s primary purpose even if a charge or fee is paid for the goods or services. Therefore the costs of delivering the NPO’s primary purposes including marketing are not fundraising’.</p> <p>Subject to materiality and not involving undue cost and effort INPAG requires that: ‘For expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, INPAG requires that these are split...’</p>	<p>The SORP (module 4) has a similar approach but has eight categories of expenditure on raising funds (paragraph 4.45):</p> <ul style="list-style-type: none"> • seeking donations, grants and legacies • operating membership schemes and social lotteries • staging events • contracting with agents to raise funds on behalf of the charity • operating charity shops • operating a trading company • advertising, marketing and direct mail materials • investment management costs. <p>The SORP requires more detail but its eight categories are encompassed in the three broad INPAG categories. The SORP has a similar distinction as to primary purpose trading (paragraph 4.44). The SORP discusses marketing costs in module 8 and makes a similar differentiation between furthering the purpose and trading (paragraph 8.10).</p> <p>The SORP similarly requires shared costs to be apportioned (paragraph 8.12).</p>
<p>Section 7 – Supplementary information</p> <p>INPAG proposes that where any supplementary statements are provided the</p>	<p>Although SORP 2005 (paragraphs 371 to 373) did refer to supplementary financial</p>

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<p>NPO adheres to the Practice Guide 1 and provides the required disclosures by section 37 of INPAG which includes reconciliation with the financial statements either by user derivation or a note. 'NPOs may choose to present a note within the general purpose financial statements with information for the whole entity using the format of the Supplementary statement in the Practice Guide.' 'A whole of entity statement is not, however, required as long as all the information necessary to construct such a note could be found elsewhere within the financial statements and notes.'</p>	<p>information it was much less prescriptive in its approach than INPAG. The latest SORP dropped these requirements and granted trustees a lot of latitude (module 1 paragraphs 1.5 and 1.33) and in addition in respect of charitable companies (module 15 paragraph 15.3).</p> <p>The SORP (module 15) looks to accommodate charitable companies that are also required under company law to provide an Income and Expenditure Account. Were INPAG adopted into UK-Irish GAAP charitable companies would be caught by the INPAG requirements of section 37.</p> <p>The previous SORP, SORP 2005, required summarised financial statements to be approved by the trustees and include the disclosure of certain matters (paragraph 377) and have an external scrutiny opinion (paragraph 378) attached. A similar approach was taken to summary financial information (379) but without an external scrutiny report. The requirements for both kinds of supplementary reporting did not extend to any form of reconciliation with the financial statements.</p>
<p>Section 8 – Supplementary statement guide</p> <p>'Any Supplementary statements presented can be included in an Annex to the general purpose financial statements' is the approach taken by INPAG. This reflects an aspiration from preparers in a number of jurisdictions that in moving to adopt INPAG this reduces the burden of donor specified reporting (noted in ED2 as an issue to be covered in ED3). By linking supplementary information to the audited financial statements, INPAG offers a framework of extended assurance hopefully reducing the desire for additional donor specific reporting and related limited assurance/ certification.</p> <p>The intention is that the supplementary guidance outside of INPAG provided by INPAG Practice Guide 1 – Supplementary statements (the Practice Guide): '... is to enable the presentation of key financial information about specified activities,</p>	<p>The SORP has no equivalent framework.</p> <p>Outside of the SORP process there have been a number of studies looking at donor specific reporting, in particular reporting to government and public sector bodies by New Philanthropy Capital. The conclusion was that in a UK context gaining consensus on a standardised approach was not possible because of the culture and practice of bespoke reporting.</p> <p>NPC study England and Wales: https://www.thinknpc.org/resource-hub/turning-the-tables-england/</p> <p>NPC study Scotland: https://www.thinknpc.org/resource-hub/turning-the-tables-scotland/</p>

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<p>projects or grants that could be useful to stakeholders for accountability purposes’.</p> <p>The Practice Guide sets out a specific format that must be followed. The rationale for which is that: ‘This reflects the main categories of expense expected to be required by stakeholders’. Also, it requires: ‘A reconciliation to the general purpose financial statements and an attestation...’</p> <p>‘There is an optional special treatment for the acquisition of capital items (fixed assets) and inventory items’ and the Guide offers a number of model templates.</p>	
<p>Section 9 – Equity</p> <p>INPAG has been revised in respect of the definition of equity (following feedback from ED1 page 11. ED1 anticipated that: ‘Equity is not expected to be common for NPOs because they are unlikely to have external parties that have a material financial interest in their net assets’).</p> <p>Section 4 Statement of Financial Position (ED1) included as an element within the statement: ‘equity, being the cumulative total at the reporting date of contributions from holders of equity claims less distributions to holders of equity claims’. Section 6 Statement of Changes in Net Assets (ED1) included the reporting of: ‘changes resulting from movements in equity, including distributions to holders of equity claims and contributions from holders of equity claims’. The glossary of terms (ED1) defined equity claims as: ‘A claim on the residual interest in the assets of an entity after deducting all its liabilities’.</p> <p>ED3 amends the reporting of equity noting that: ‘Net assets replaces equity as a financial statement element.’ It also advises that: ‘In the rare instances where NPOs have some form of share capital or similar instrument, INPAG refers to these as equity claims. This term is used to create separation from the term equity used in the private sector.’</p>	<p>The SORP deals with equity in module 15 anticipating that equity is most commonly found as share capital in a company setting. Its solution is to modify the funds of a charity to disclose the element of share capital (paragraph 15.19) but a separate changes in equity statement is not normally required (paragraph 15.20). INPAG more closely follows the IFRS for SMEs in having a separate statement.</p>

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<p>Also INPAG has been amended so that: 'Section 22 has been amended to reflect the use of the term equity claims. This section clarifies that where an NPO issues membership shares that provide no entitlement to the NPO's net assets, that these should be treated as liabilities.' These changes came about from survey work, a conclusion of which was that: 'Largely, share capital did not appear to provide an entitlement to anything other than a return of funds'.</p>	
<p>Section 10 – Fair value measurement – donated assets</p> <p>INPAG proposes to apply fair value to donated assets using the fair value hierarchy- the three levels being: open market value (level 1), derivation from observable prices (level 2) and level 3 assets held to deliver an NPO's objectives rather than maximising cash flows.</p> <p>For donations of property, plant and equipment, investment property and intangible assets the approach is: 'In all cases initial measurement requires the use of fair value to establish a 'deemed cost' for the donated asset'.</p> <p>In effecting measurement the term economic benefit has also been modified: '... the term economic benefit has been expanded to include service potential as this will be a factor in measuring its value, particularly when there is a limitation on the use of an asset'.</p>	<p>The SORP sets out the treatment of donated assets in module 6 and it recognises that practical considerations affect the measurement bases adopted (paragraph 6.4). Measurement is at fair value to the charity if this can be measured reliably (paragraph 6.6) but alternative approaches are permitted for donated services and facilities (paragraphs 6.14 and 6.15), stock for distribution (paragraph 6.26), and goods for resale (paragraph 6.29).</p> <p>The term economic benefits is defined in the glossary of the SORP as: '...the value derived from an asset in terms of cash flows generated, its cash flow generating capacity, or the service potential created, or costs saved or avoided by having control over the asset'. The SORP defines service potential as: '...the capacity to provide services that contribute to achieving a charity's objectives. Service potential enables a charity to achieve its objectives without necessarily generating cash inflows'. The SORP considers service potential in the context of assessing impairment (module 12) in paragraphs 12.9, 12.12 to 12.14.</p>
<p>Section 11 – Transition to INPAG</p> <p>INPAG will require on first adoption that the comparatives are provided for the full set of</p>	<p>The practical issues here are fourfold:</p>

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<p>financial statements. It provides that:</p> <ul style="list-style-type: none"> • fair value or revaluation as deemed cost for property, plant and equipment including heritage assets • fair value as deemed cost for financial assets (including endowments) • fair value or revaluation value as deemed cost of inventory. <p>INPAG will require: ‘All assets and liabilities that are required to be recognised by INPAG must be included in the Statement of Financial Position, including enforceable grant arrangement (EGA) assets and liabilities. The requirements for EGAs are limited to grant arrangements that are due to be completed more than 12 months after the date of transition to INPAG’ and ‘All loans that have been provided at a below-market rate of interest must be recognised using the requirements of Section 11 Financial instruments’.</p> <p>A two-year transition period is allowed in complying with INPAG in respect of the required narrative reporting.</p>	<ul style="list-style-type: none"> • To replace the SORP, INPAG would need to be adopted as UK-Irish GAAP. • Insofar as accounting and reporting regulations have been made in the UK and Ireland jurisdictions, these would need to be updated to refer to INPAG. • Additional reporting that may be required in the UK or Ireland – for example, the Companies Act Income and Expenditure Account, or additional elements of narrative reporting required by law or to meet stakeholder needs – would be supplementary to INPAG. • Elements of reporting or accounting not yet considered by INPAG would need to be effected in a way that is not viewed as non-compliance with INPAG. Unlike UK-Irish GAAP, INPAG has no equivalent to SORPs that combine applying a standard and requiring additional reporting. <p>The preface to INPAG (ED1) paragraph GP17 concedes that: ‘Not all NPO-specific financial reporting issues have yet been addressed; the initial focus has been to address those issues identified as priorities following the Consultation Paper.’ It remains unclear how incorporating solutions for accounting issues not yet considered in INPAG would be treated and disclosed when asserting compliance with INPAG.</p> <p>Of the 22 sector specific issues INPAG identified in an initial consultation exercise- Part II of the analysis notes that 10 are being progressed in the first INPAG (see page 71 and table 2.1) with 12 issues held over for future updates (see page 71 and table 2.2): https://www.ifr4npo.org/wp-content/uploads/2022/07/IFR4NPO_PART-2_-NPO-specific-financial-reporting-issues.pdf</p> <p>To comply with INPAG any current requirements found in regulations that contradict INPAG would need to be removed. In considering compliance with INPAG ED1 advised that:</p>

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	<ul style="list-style-type: none"> • 'Some NPOs may choose to apply aspects of INPAG but not the full requirements. This might be part of a plan to fully adopt INPAG, but outside of the permitted transition arrangements – transparency is helpful. • Alternatively, NPOs that are required to follow an accounting framework other than INPAG may use aspects of INPAG. It would be beneficial for these entities to explain why they are selectively using INPAG. In both cases, compliance with INPAG cannot be asserted'.
<p>Section 12 – Other topics</p> <p>INPAG adapts some sections of the IFRS for terminology: investment in associates, joint arrangements and leases.</p> <p>More substantive changes are proposed for: business combinations (including goodwill) and impairment of assets. Feedback is sought on whether aspects of specialised activities apply to NPOS in particular: agriculture, extractive activities and service concessions.</p> <p>The section on Business combinations has been amended to: 'The guidance makes clear that businesses include organisations that provide services to service recipients. It also covers NPO combinations that are motivated by an NPO's missional objectives rather than purely financial considerations.'</p> <p>Also Section 27 Impairment of assets has been amended to: '... reflect the new measurement base for donated inventory held for distribution at no or nominal consideration, which is measured at its cost adjusted for any loss of service potential. It also clarifies that in assessing the value in use of an asset, other economic benefits and service potential are considered'.</p>	<p>The SORP has a module for investments in associates (module 28) and joint ventures (module 29) and refers to leases in module 10 from a lessee perspective (paragraph 10.27).</p> <p>Business combinations are considered in module 24 with a distinction made for branches, linked or connected charities and joint arrangements (module 25) and charity mergers (module 27). The SORP also considers charities as subsidiaries in module 26.</p> <p>Module 24 considers charity combinations distinguishing between a merger and those that are not (paragraph 24.30).</p> <p>In module 6 donated goods for distribution to beneficiaries are measured at fair value (paragraph 6.23) but this can be adjusted (paragraph 6.24) and recognised on receipt or if impractical upon distribution (paragraph 6.26). In module 12 service potential is used to assess impairment of assets primarily used to provide services to beneficiaries rather than for generating future cash flows (paragraph 12.12).</p>

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<p>Section 13 – Illustrative financial statements</p> <p>Since ED1 further work has been undertaken on the illustrative financial statements. The intention is that: ‘The illustrative financial statements show the primary statements and as well as examples of the notes to the financial statements. They are intended to cover those transactions that are most prevalent for NPOs and need to be read in conjunction with the illustrative examples for each Section. The focus is on requirements introduced by INPAG.’</p>	<p>The SORP does not incorporate model financial statements into its text but two worked examples are provided separately as a resource on the dedicated SORP website pages: https://www.charitySORP.org/example-trustees-annual-reports</p>

Part B – The analysis

The approach taken to the analysis was to review the first part of the ED which sets out adaptation topics for discussion and accompanying questions and then compare the approach taken by INPAG to those topics with current GAAP referencing any other points from the ED where appropriate. The analysis considers each section of the authoritative guidance set out in ED3 which includes some topics not considered of particular note in the first part of the ED. The section headings correspond to the sections listed in this authoritative guidance part of the ED.

The analysis does not consider every difference between INPAG and FRS102 since INPAG is referencing the International Accounting Standards Board’s (IASB) consultation draft of an updated third version of the IFRS for SMEs and so some of the observed differences relate to intended changes to the IFRS for SMEs. (The FRC undertook a similar exercise with its Financial Reporting Exposure Draft 82 and published the Amendments to FRS102 in March 2024 with a release of the updated FRS102 anticipated for 2024. These IFRS for SMEs related changes are not referenced in this paper because the Charities SORP has yet to be updated for them. An updated SORP is expected to be published autumn/ winter 2025.)

Comparison of INPAG treatment with current GAAP

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>Section 2 – Concepts and pervasive principles</p> <p>This section has been amended in light of feedback with the amendments tracked in the text.</p> <p>References to equity have been modified</p>	<p>The SORP refers to equity in the context of</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>throughout – originally equity and net assets were interchangeable terms but equity claims are now treated as a subset of net assets. Reflecting this clarification, a reference to net assets has been elevated to be an element of the financial statements (paragraph G2.50) with equity claims (eg share capital) specifically shown as a component (new paragraph G2.74).</p> <p>The references to fund accounting have been reduced with a cross reference to section 36 substituted (paragraph G2.75).</p> <p>The application guidance has been extensively revised given the clarified approach to net assets as being distinct from equity and with the term equity claims now used- see revised paragraphs AG2.6 and 2.7.</p>	<p>share capital – module 15 paragraphs 15.19 and 15.20 with a modification to the funds of the charity elements in the balance sheet (module 10 paragraph 10.91).</p> <p>The SORP does use the heading net assets as a line item in the balance sheet to show a positive net balance of total assets less total liabilities. This net balance is then represented by the fund balances held (see module 10 table 5). The point of difference is rather than state a line item total charity funds (table 5) INPAG uses the term net assets.</p> <p>INPAG covers many forms of NPOs whereas the SORP only covers charities. Equity claims in terms of paid up share capital are rare in charities.</p>
<p>Section 5 – Statement of Income and Expenses</p> <p>The application guidance on income and expenses with restrictions has been changed reflecting the dropping of separate columns for funds with restrictions and its substitution as an option (paragraph AG5.4 has been changed and paragraphs AG5.5 and 5.6 deleted).</p>	<p>The SORP only permits a single funds column in the SoFA where a class of funds is immaterial (paragraph 4.11) otherwise having separate columns is mandatory (paragraph 4.9).</p>
<p>Section 7 – Statement of Cash Flows</p> <p>An addition is the treatment of supplier finance arrangements- new paragraphs G7.20A and G7.20B. ‘These arrangements provide NPOs with extended payment terms, or the NPO’s suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.’ Paragraph G7.20B sets out three required additional disclosures for these arrangements.</p>	<p>The current SORP does not consider supplier finance arrangements. In its amendments to FRS102 the FRC is introducing similar requirements to GAAP: ‘Earlier effective dates apply to new disclosures about supplier finance arrangements in Section 7 Statement of Cash Flows of FRS 102 (periods beginning on or after 1 January 2025, with early application permitted)...’.</p>
<p>Section 12 – Fair value measurement</p> <p>This section provides guidance on applying fair value (with specific exceptions noted –</p>	<p>The SORP is not an accounting standard in its own right and so where no specific</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>paragraph G12.1 and 12.2).</p> <p>‘Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability (paragraph 12.4).’</p> <p>Paragraphs G12.5 to G12.9 set out how an NPO approaches identifying fair value in the context of the determining market price.</p> <p>In deciding on fair value INPAG takes the ‘highest and best use’ which it defines as (paragraph G12.10): ‘A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefit or service potential by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.’</p> <p>If a market price is not directly observable for the item a valuation technique is used and INPAG sets out three approaches (paragraph 12.15):</p> <ul style="list-style-type: none"> • market approach • cost approach • income approach. <p>In terms of reliability of measurement INPAG</p>	<p>guidance is given the preparer refers back to FRS102. INPAG is intended to be a complete standard and so looks to encompass all aspects. The SORP adopts two approaches to measurement- fair value and historical cost (module 3 paragraph 3.23).</p> <p>The glossary to the SORP defines fair value as: ‘Fair value is an accounting term for the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm’s length transaction. For traded securities in which there is an established market, the fair value is the value of the security quoted in the London Stock Exchange’s Daily Official List or equivalent. For other assets where there is no market price on a traded market, it is the trustees’ or valuer’s best estimate of fair value. In these circumstances, fair value measurement aims to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability.’</p> <p>The SORP does not have ‘highest and best use’ as a criterion for defining fair value. This is important because in adapting fair value the SORP places a donated item in the context of the charity whereas INPAG does not. For example, the SORP uses the ‘value to the charity’ of donated facilities and services as a basis for measurement instead of fair value (module 6 paragraphs 6.14, 6.15 and 6.26). Also, the assumption is not made that an asset retained for the charity’s own use will always be fully utilised rather it is anticipated that spare unused capacity may be deliberately kept to deal with fluctuations in need (module 12 paragraph 12.16).</p> <p>The SORP does not contain a fair value hierarchy but the appendix to section 2 of the current FRS102 has a similar approach but is much less prescriptive (appendix paragraph 2A.1).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>notes (paragraph G12.20): 'Normally it is possible to estimate the fair value of an asset that an NPO has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the NPO is precluded from measuring the asset at fair value.' Where fair value is precluded then (paragraph 12.21): '... its carrying amount at the last date the asset was reliably measurable becomes its new cost'.</p> <p>INPAG sets out a fair value hierarchy with three levels:</p> <ul style="list-style-type: none"> • 'Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date' (paragraph 12.23). • 'Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly' (paragraph G12.25). • 'Level 3 inputs are unobservable inputs for the asset or liability. An NPO shall develop unobservable inputs using the best information available in the circumstances, which might include the NPO's own data' (paragraph 12.27). <p>The application guidance considers what to do if an asset is not held primarily for generating cash-flows. It advises that if (paragraph AG12.2): 'the asset is used for social purposes rather than maximising cash inflows, a Level 3 technique shall be employed'.</p> <p>Heritage assets are valued using the cost approach (paragraph AG12.4).</p> <p>For assets that are restricted (paragraph AG12.5): 'Where a restriction is placed on how an asset can be used over time, the fair value of that asset shall be evaluated based on its current usage within those restrictions. This will be the highest and best use of that asset under those circumstances.'</p>	<p>The appendix to section 2 (paragraph 2A.6) takes the same approach substituting carrying value as the deemed cost.</p> <p>The appendix to section 2 has a similar framework with</p> <ul style="list-style-type: none"> • 'quoted price' • 'last transaction price' • a valuation technique. <p>In regard to a valuation technique the maximum use is made of 'market inputs' relying as little as possible on 'entity-determined' inputs'.</p> <p>In respect of assets held for the charity's own use rather than primarily to maximise cash-flows the SORP refers to valuing on the basis of service potential (module 12 paragraph 12.12).</p> <p>Module 18 of the SORP considers heritage assets with measurement at either cost or valuation (paragraphs 18.12 and 18.16).</p> <p>The SORP also requires restrictions to be considered when valuing donated goods for distribution to beneficiaries (module 6 paragraphs 6.11 and 6.24).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>Also (paragraph AG12.6): ‘The fair value of an asset that is subject to a restriction shall take account of the service potential of that asset in determining its value’.</p> <p>In respect of donated assets (paragraph AG12.7): ‘Application of fair value on initial recognition of a donated asset shall be its deemed cost’. If no other measurement approach is reliable then replacement cost is used (paragraph AG12.10): ‘Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created for use in delivering services to beneficiaries.’</p> <p>Pragmatically in a crisis situation where attempting fair value valuation is not practical, items are not recognised at fair value and instead a disclosure is made (paragraph AG12.11).</p>	<p>For donated assets whether fair value is used depends on the nature of the item but the default approach is fair value (paragraph 6.8) but alternatives are permitted. Alternatives are value on sale for goods donated for resale (paragraph 6.10) or deemed cost for stock for distribution (paragraph 6.12) or value to the charity of donated facilities and services (paragraph 6.14).</p> <p>The SORP also refers to replacement cost in respect of measuring goods donated for distribution (paragraph 6.12) and heritage assets (paragraph 18.17)</p> <p>The SORP takes a similar stance in regard of disclosing items not valued in the cases of unpaid general volunteers (paragraph 6.18) and heritage assets (paragraph 18.17) but makes no reference to crisis situations.</p>
<p>Section 14 – Investment in associates</p> <p>This section of INPAG sets out the treatment in consolidated accounts with a cross reference to paragraph 9.45 of section 9 (ED1) in respect of separate financial statements. (Paragraph 9.45 of section 9 offers three options: cost less impairment, fair value or the equity method).</p> <p>It defines an associate (paragraph 14.2) as: ‘...the investing NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement’.</p> <p>Paragraph 14.3 defines significant influence as: ‘20 per cent or more of the voting power of the associate, it is presumed that the investing NPO has significant influence’.</p>	<p>Module 28 of the SORP sets out the treatment for associates for both consolidated and separate financial statements.</p> <p>In respect of separate financial statements the interest in the associate is shown as a fixed asset investment (paragraph 28.15) and the accounting treatment options are (paragraph 28.9): cost less impairment, or fair value.</p> <p>The SORP has an identical definition of an associate (paragraph 28.3).</p> <p>The approach of the SORP to significant influence is also 20 per cent (paragraph 28.4).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>Paragraph 14.4 offers three accounting treatment options. ‘An investing NPO shall account for all of its beneficial interest in associates using one of the following: (a) the cost model in paragraph G14.5; (b) the equity method in paragraph G14.8; or (c) the fair value model in paragraph G14.9.’</p> <p>Presentation is prescribed as (paragraph 14.11): ‘An investing NPO shall classify investments in associates as non-current assets’.</p>	<p>Unlike INPAG the SORP has only one treatment in consolidated accounts- the equity method (paragraph 28.10).</p> <p>Presentation is as a fixed asset investment (paragraph 28.15).</p> <p>The SORP unlike INPAG also considers the accounting presentation for an associate that is a charity (paragraph 28.16).</p>
<p>Section 15 – Joint arrangements</p> <p>This section of INPAG sets out the treatment in consolidated accounts with a cross reference to paragraph 9.45 of section 9 (ED1) in respect of separate financial statements. (Paragraph 9.45 of section 9 offers three options for a jointly controlled entity: cost less impairment, fair value or the equity method).</p> <p>INPAG (paragraph 15.4) identifies three types of joint arrangement:</p> <ul style="list-style-type: none"> • jointly controlled operations • jointly controlled assets • jointly controlled entity. <p>INPAG paragraph 15.5 defines a jointly controlled operation as: ‘The operation of some joint arrangements involves the use of the assets and other resources of the parties to the joint arrangement instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the parties themselves.’ Paragraph 15.6 provides for a single</p>	<p>Module 29 of the SORP sets out the treatment for joint ventures for both consolidated and separate financial statements. The term joint arrangements is not used but this is because section 15 of the current FRS102 does not use this term.) The SORP module only considers jointly controlled entities (paragraph 29.7). Module 25 considers other kinds of joint arrangement (paragraph 25.24).</p> <p>In respect of separate financial statements the interest in the associate is shown as a fixed asset investment (paragraph 28.15) and the accounting treatment options are (paragraph 28.9): cost less impairment, or fair value.</p> <p>The SORP has the same three types (paragraph 29.6) but jointly controlled operations and jointly controlled assets are considered in module 25 (paragraph 25.26). Only jointly controlled entities in module 29.</p> <p>The focus of the SORP is on the legal arrangement (paragraphs 25.25 and 29.10) and joint control (paragraphs 25.25 and 29.9).</p> <p>For both jointly controlled operations and jointly controlled assets a charity identifies its own share of the income and expenditure and assets and liabilities relating to the joint venture activity (paragraph 25.26).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>accounting treatment with each party to the arrangement reporting the assets that it controls and the liabilities that it incurs; and the expenses that it incurs and its share of the revenue that it earns from the sale of goods or services by the joint arrangement.</p> <p>For jointly controlled assets (paragraph 15.8): ‘In respect of its interest in a jointly controlled asset, an NPO shall recognise in its financial statements:</p> <ul style="list-style-type: none"> (a) its share of the jointly controlled assets, classified according to the nature of the assets; (b) any liabilities that it has incurred; (c) its share of any liabilities incurred jointly with the other parties in relation to the joint arrangement; (d) any revenue from the sale or use of its share of the output of the joint arrangement, together with its share of any expenses incurred by the joint arrangement; and (e) any expenses that it has incurred in respect of its interest in the joint arrangement.’ <p>In respect of a jointly controlled entity (paragraph 15.9) defines these as: ‘A jointly controlled entity is a joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest.’ The accounting treatment options are (paragraph 15.20): cost model, equity method or fair value.</p>	<p>The equity method is only used for joint entities (paragraph 29.16).</p> <p>The SORP unlike INPAG also considers the accounting presentation for an associate that is a charity (paragraphs 29.11 and 29.12) with the equity method only used (paragraph 29.13).</p>
<p>Section 16 – Investment property</p> <p>This section deals with investment property that can be measured at fair value (paragraph G16.1) otherwise it is treated as property, plant and equipment and measured using the cost model. It includes property held under finance leases (paragraph G16.2) and can include property held under operating leases if these are measured at fair value (paragraph G16.4).</p> <p>It excludes property held to further an NPO’s</p>	<p>SORP module 10 considers investment property. It defines investment property by reference to earning rentals, for capital appreciation or both (paragraph 10.45). It refers to properties held on a finance lease only (paragraph 10.45) but FRS102 (section 16 paragraph 16.3) also refers to certain operating leases.</p> <p>By definition (paragraph 10.45) these are</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>mission (paragraph G16.3): ‘A property held by an NPO primarily for activities to deliver its missional objectives and which also generates cash inflows, for example social housing, shall not be classified as an investment property...’</p> <p>Provided the investment component can be measured at fair value mixed use property is treated as (paragraph G16.6) : ‘Mixed use property shall be separated between investment property and property, plant and equipment...’</p> <p>Initial measurement is at cost (paragraph G16.7) unless donated when it is measured at fair value (paragraph 16.8) and in all cases leases are measured at: ‘...the lower of the fair value of the property and the present value of the minimum lease payments...’ (paragraph 16.9).</p> <p>Subsequent measurement is at fair value unless impractical when the cost model is used (paragraphs G16.10 and 16.12). There is a cross reference to section 12 for deriving fair value. Paragraph 16.11 notes that: ‘If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the NPO shall thereafter account for that item in accordance with Section 17...’</p> <p>Reclassification is only permitted where there is a change of use (paragraph G16.12).</p>	<p>excluded and fall within those assets referred to in paragraph 10.25.</p> <p>The SORP has the same approach to mixed use property (paragraph 10.47) however the SORP treats these as social investments and cross refers to module 21 (paragraph 10.52). (module 21 refers to how these are presented, paragraph 21,22, reclassified, paragraph 21.31 and tested for impairment, paragraphs 21.32 and 21.35).</p> <p>The SORP has the same approach for investment property (paragraph 10.48) with donated property measured at fair value (module 6 paragraph 6.6). It is silent on leased investment property but section 16 of FRS102 has the same approach as INPAG (paragraph 16.6).</p> <p>The SORP has the same approach for investment property (paragraph 10.48) but has a concession for intra group transactions where the alternative of the cost model is permitted (paragraph 10.48A).</p> <p>The SORP does not refer to reclassification where fair value can no longer be measured but section 16 of FRS102 has the same approach as INPAG. it requires that fair value is assessed on an on-going basis (paragraph 16.3) and where this is not possible then in applying appendix 2 to section 2 the carrying amount becomes the deemed cost (paragraph 2.A6).</p> <p>The SORP is silent on reclassification but section 16 of FRS102 refers to change of use (paragraph 16.9A).</p>
<p>Section 17 – Property, plant and equipment</p> <p>Paragraph 17.2 defines what PPE is: ‘Property, plant and equipment are tangible assets that: (a) are held for use in the ordinary activities of the NPO, for rental to others, or for NPO’s</p>	<p>SORP module 10 considers property, plant and equipment (PPE) and has a similar definition (paragraph 10.25).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>administrative purposes; and (b) are expected to be used during more than one period.'</p> <p>Initial measurement is at cost (paragraphs G17.4 and G17.9) and donated PPE at fair value with this then becoming its deemed cost (paragraph G17.10).</p> <p>It requires components to be measured and treated separately if these can be identified (paragraph G17.6). Land and buildings are always treated separately (paragraph G17.7).</p> <p>It identifies how cost is measured (paragraphs G17.11, 17.14 and 17.15) and what is excluded (paragraphs G17.12 and 17.13)</p> <p>Subsequent measurement is either using the cost model (paragraph G17.7 or revaluation (paragraphs G17.18 to G17.20).</p> <p>Depreciation using the cost model is on a component basis (paragraph G17.21) and systematic over the asset's useful life (paragraph G17.23) and in most instances land is not depreciated (G17.21). 'An NPO shall select a depreciation method that reflects the pattern in which it expects to consume the asset's economic benefits or service potential' (paragraph G17.27).</p> <p>PPE is tested for impairment (paragraph G17.29). On de-recognition, for example sale, any gain or loss on disposal is identified (paragraph G17.35).</p>	<p>The SORP has the same approach and permits capitalising interest (paragraph 10.26) whereas INPAG does not (see ED2 section 25 paragraph 25.2). Donated tangible fixed assets are measured at fair value (module 6 paragraph 6.20) which becomes the deemed cost and subject to depreciation and impairment (paragraph 6.22).</p> <p>The SORP has the same approach for components (paragraph 10.31) and land (paragraph 10.30).</p> <p>The SORP offers less detail on measuring cost (paragraph 10.26) but section 17 of FRS102 paragraph 17.10 has a similar list which has the extra permitted item of borrowing costs. The SORP does not refer to excluded items but section 17 paragraph 17.11 has a similar list but unlike INPAG this does not include borrowing costs.</p> <p>The SORP has the option of subsequent measurement on a revaluation basis (paragraph 10.33).</p> <p>Depreciation is treated similarly (paragraphs 10.29 to 10.31).</p> <p>The SORP also refers to impairment but in a separate module- module 12 paragraph 12.1. Any disposal is similarly treated as INPAG (paragraph 10.36).</p>

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<p>Section 18 – Intangibles other than goodwill</p> <p>INPAG defines and intangible asset (paragraph G18.2) as ‘an identifiable non-monetary asset without physical substance’ which is both separable and arises from contractual or other rights.</p> <p>Recognition (paragraph 18.4) is where : ‘An NPO shall recognise an intangible asset as an asset if, and only if:</p> <p>(a) it is probable that the expected economic benefits or service potential that are attributable to the asset will flow to the NPO;</p> <p>(b) the cost or value of the asset can be measured reliably; and</p> <p>(c) the asset does not result from expenditure incurred internally on an intangible item.</p> <p>In regard to recognition (paragraph G18.7): ‘An NPO shall assess the probability of expected economic benefit or service potential using reasonable and supportable assumptions’ over its useful life (which is finite- paragraph G18.21). Intangible assets are recognised at cost (paragraph 18.11) unless acquired as part of a business combination (paragraph 18.13) or donated (paragraph 18.14) in which case they are recognised at fair value. Exchanged assets are normally measured at fair value but in some cases at carrying value (paragraph G18.5).</p> <p>For internally generated assets (paragraph G18.6): ‘An NPO shall recognise expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, as an expense.’ Examples of expenses are given (paragraph G18.7) and items charged as an expense cannot later be capitalised (paragraph G18.9).</p> <p>Subsequently (paragraph G18.20) ‘an NPO shall measure intangible assets at cost less any accumulated amortisation and any accumulated impairment losses’.</p> <p>Unless part of another asset paragraph G18.23 provides that: ‘An NPO shall allocate the depreciable amount of an intangible</p>	<p>Module 10 of the SORP deals with intangible fixed assets. The SORP has a similar definition (paragraph 10.18).</p> <p>The same recognition criteria are applied by the SORP as for any fixed asset (paragraph 10.14). These are control, probability and reliable measurement but unlike INPAG not a complete bar on recognising all internally generated intangible assets (see paragraph 10.20).</p> <p>A different approach is taken to recognition with a rebuttable assumed asset life of 10 years (paragraph 10.23) but otherwise reference is to gains or furthering the charity’s objects (paragraph 10.12), initial recognition is at cost (paragraph 10.21) or of donated fair value (module 6 paragraph 6.8). Business combinations are considered in module 24 with specific recognition criteria for acquired intangible assets (paragraphs 24.34A and 24.34B) which are recognised at fair value (paragraph 24.32). Exchanged assets are not referred to by the SORP but section 18 of FRS102 specifies fair value (paragraph 18.13).</p> <p>The SORP differs in one respect to the approach that INPAG takes in not recognising internally generated intangible assets insofar as costs incurred in a development phase can in very limited circumstances be capitalised (paragraphs 10.19 and 10.20.)</p> <p>The SORP permits both the cost model and revaluation models (paragraph 10.22).</p> <p>The SORP has a similar approach to depreciation (paragraph 10.23).</p>

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<p>asset on a systematic basis over its useful life' and the method chosen (paragraph 18.24) 'reflects the pattern in which it expects to consume the asset's economic benefit or service potential'. The residual value is normally nil (paragraph G18.26).</p> <p>Assumptions made are subject to review with any change considered a change in accounting estimate (paragraph G18.27) and it is also subject to an impairment review (paragraph G18.28). A gain or loss is recognised on de-recognition, for example on disposal (paragraph G18.29).</p>	<p>The SORP also assumes a default of nil residual value (paragraph 10.21).</p> <p>The SORP also requires a review at the reporting date (paragraph 10.23). Impairment is dealt with in module 12 with a review if impairment is indicated (paragraph 12.4) with additional depreciation (paragraphs 12.18 to 12.20) or reversal.</p>
<p>Section 19 – Business combinations and goodwill</p> <p>INPAG defines a combination as (paragraph G19.4): 'A business combination is a transaction or other event in which an acquiring NPO, obtains control of one or more businesses'. Combinations of organisations which are under common control are excluded (paragraph G19.2). A business combination can include other NPOs (paragraph G19.5).</p> <p>The acquisition method is used (paragraph G19.6) with an acquirer identified (paragraph G19.8) and acquisition date (paragraph G19.11) with assets separately identified from any goodwill along with any liabilities (paragraph G19.12) with both measured at fair value (paragraph G19.14) at the</p>	<p>Module 22 of the SORP considers pooled investment funds and module 23 provides an overview of charity combinations and includes a flowchart (figure 2) with module 24 considering accounting for groups and the preparation of consolidated accounts.</p> <p>Reference is made in module 24 to control (paragraph 24.2). The SORP also distinguishes situations of charities under common control and sets out how these are treated in module 25 using the terms 'branches' and 'special trusts' 'linked charities' and 'connected charities'.</p> <p>Unlike the SORP INPAG has no section about charities (NPOs) as subsidiaries whereas the SORP does (module 26) and neither has INPAG a treatment for mergers. The SORP permits merger accounting (paragraph 24.30) for certain combinations (see also module 27). Notably FRS102 permits the merger method to be used for group reconstructions (section 19 paragraph 19.27).</p> <p>The SORP affirms that a subsidiary is not excluded even if its activities are dissimilar (paragraph 24.12) whereas INPAG is silent.</p> <p>The SORP cross refers to FRS102 in regard to consolidation procedures (paragraph 24.24). The SORP does refer to identifying</p>

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<p>acquisition date (paragraph G19.14) along with any non-controlling interest (paragraph G19.15).</p> <p>Any separable intangible asset, provision and contingent liability, deferred tax asset/liability, employee benefit related liability/asset is identified and assessed (paragraphs G19.16 to G19.22).</p> <p>Any goodwill is calculated (paragraph G19.23) or if a bargain purchase any gain (paragraph G19.24).</p> <p>Consideration is recognised at fair value (paragraph G19.26) and any deferred consideration calculated and recognised (paragraph G19.27) if practicable (paragraph G19.28).</p> <p>If the acquisition is not completed by the end of the reporting period it is a step acquisition and is reported on a provisional basis and then reassessed the following year-end (paragraph G19.32).</p> <p>The costs involved in making an acquisition are treated as an expense (paragraph G19.33).</p> <p>INPAG provides guidance on subsequent measurement of goodwill (paragraph G19.35), contingent liabilities (paragraph G19.36) and contingent consideration (paragraph G19.37) where it differentiates those changes that are: ‘...resulting from</p>	<p>non-controlling interests (paragraphs 24.26 to 24.29).</p> <p>Section 19 of FRS102 considers business combinations and goodwill. The purchase method (paragraph 19.7) with an acquirer identified (paragraph 19.8) and acquisition date (paragraph 19.10A) with assets separately identified along with any liabilities (paragraph 19.11) with both measured at fair value (paragraph 19.11) and goodwill calculated (paragraph 19.23) at the acquisition date (paragraph 19.14) along with any non-controlling interest (paragraph 19.7).</p> <p>Paragraph 19.18 holds that: ‘...the acquirer recognises separately only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date...’</p> <p>Any goodwill is calculated (paragraph 19.22) (or, if appropriate, negative goodwill (paragraph 19.24)). The SORP recognises that one charity does not buy another but one charity might rescue or take control by mutual agreement and if a bargain purchase any gain is identified or if appropriate a loss (SORP paragraph 24.30).</p> <p>Consideration is recognised at fair value (paragraph 19.11) and any deferred consideration calculated and recognised (paragraph 19.27) if practicable (paragraph 19.28).</p> <p>FRS102 provides for acquisition through a series of transactions (paragraph 19.11A) with provisional amounts (paragraph 19.19) and a reassessment the following year (paragraph 19.19).</p> <p>FRS102 permits the costs involved in acquisition to be added to the consideration paid (paragraph 19.11).</p> <p>FRS102 provides guidance on subsequent measurement of goodwill (paragraph 19.23),</p>

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<p>events after the acquisition date, such as meeting a fundraising target, or reaching a milestone on a research and development project, are not measurement period adjustments...’ and these items are not treated as adjustments within equity.</p>	<p>contingent liabilities (paragraph 19.21) and contingent consideration (paragraph 19.19).</p>
<p>Section 20 – Leases</p> <p>This section applies to most (but not all leases (paragraph G20.1) and differentiates finance leases from operational leases (paragraph G20.4).</p> <p>In respect of finance leases the lessee identifies the right of use asset and corresponding liability (paragraph G20.9) and subsequently differentiates the financing element from the reduction in the liability with a corresponding depreciation of the asset using the effective interest method (paragraphs G20.11 and G20.12).</p> <p>Operating leases are treated as an expense calculated on a straight line basis over the term of the lease (paragraph G20.15).</p> <p>INPAG also considers lessor accounting of leases (paragraph G20.17) where these are considered as investments in finance leases (paragraph G20.17)</p>	<p>SORP module 10 refers to leases and has the same distinction of finance lease and operating lease for lessees but otherwise refers the practitioner to FRS102.</p> <p>Section 20 of FRS102 has the same approach to finance leases (paragraph 20.9).</p> <p>FRS102 has the same approach to operating leases (paragraph 20.15). (It should be noted that amendments to FRS102 effective from 1 January 2026 change the accounting for operating leases under UK-Irish GAAP to one of on-balance sheet reporting with an asset recognised for the right of use and a matching liability for the lease obligation- see revised FRS102 section 20 paragraph 20.45.)</p> <p>FRS102 has the same approach to lessor accounting for leases (paragraph 20.17).</p>
<p>Section 22 – Liabilities and equity claims</p> <p>This section differentiates between financial instruments that are liabilities and those that are ‘equity claims’ (paragraph G22.1).</p> <p>A liability is: ‘a present obligation of the NPO arising from past events, the settlement of which is expected to result in an outflow from the NPO of resources embodying economic</p>	<p>Although the SORP does note equity as a balance sheet element in respect of charitable companies (module 15 paragraph 15.19) given that almost all charities cannot and do not issue share capital the module on financial instruments (module 11) does not consider share and similar equity issues.</p> <p>The SORP (module 7 paragraph 7.5) sets out three criteria for recognising a liability which include ‘a present legal or constructive</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>benefits' (paragraph G22.3).</p> <p>An equity claim is: 'the financial interest in the net assets of an NPO' (paragraph G22.3). The examples given of equity claims (paragraphs G22.5 and G22.7) is one where: 'it entitles the holder to a pro rata share of the NPO's net assets in the event of the NPO's liquidation or ceasing to be an NPO as set out in the equity claims agreement'.</p> <p>Helpfully the examples of financial instruments that are liabilities (paragraph G22.6) includes: 'an instrument is classified as a liability if the distribution of net assets on liquidation or on ceasing to be an NPO is subject to a maximum amount (a ceiling)'.</p> <p>Equity claims such as issuing shares (paragraph G22.8) are adjusted for any related expenses incurred in issuing those shares (paragraph G22.10).</p> <p>Convertible debt is divided between the equity element and liability element (paragraph G22.13).</p> <p>INPAG considers cash (paragraph G22.16) and non-cash distributions (paragraph G22.17) which are recognised at fair value if practicable otherwise at carrying value.</p>	<p>obligation exists at the reporting date as a result of a past event'.</p> <p>INPAG is more broadly drawn than the charities SORP as it covers more forms of non-profit organisation (ED1) and therefore it needs to consider those that issue equity.</p> <p>FRS102 section 22 considers equity instruments and has the same distinction between liabilities or equity (paragraph 22.1).</p> <p>FRS102 has the same treatment of transaction costs relating to issuing equity (paragraph 22.9).</p> <p>FRS102 has the same approach to convertible debt (paragraph 22.13).</p> <p>FRS102 requires all kinds of distribution to be recognised at fair value (paragraph 22.18).</p>
<p>Section 24 – Expenses Part II Classification of expenses</p> <p>This section deals with the analysis of the expenses in the 'Statement of Income and Expenses' and provides that (paragraph G24.43): 'An NPO shall provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation (with part natural expenses classification and part functional classification)'.</p> <p>The rebuttable assumption is that a natural classification will be used (paragraph G24.44).</p> <p>Where a functional or mixed presentation is adopted INPAG sets out the principles of</p>	<p>The SORP requires all charities to classify expenses on an activity (functional) basis with an option for smaller charities to adopt an alternative classification (module 4 paragraph 4.6). It is not prescriptive about what alternate classification smaller charities can adopt (paragraph 4.22) but illustrates the natural classification (paragraph 4.23).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>expense allocation to be followed (paragraph G24.49) differentiating three types of cost: direct, shared and support.</p> <p>The application guidance identifies four main considerations for not accepting the presumption of a natural classification (paragraph AG24.46)</p> <p>In respect of support costs (paragraph AG24.49) it offers the observation that: 'Support costs are essential to enable the NPO to carry out its activities and are often organisation wide'.</p>	<p>The SORP has a separate module for cost allocation (module 8) and it has the same distinction between direct, shared and support costs (paragraph 8.8). The SORP's approach to support costs differs in regards to definition (paragraph 8.7).</p>
<p>Section 24 – Expenses Part III Fundraising costs</p> <p>This part of section 24 specifies the requirements for calculating and disclosing costs associated with fundraising activities.</p> <p>INPAG has three types of fundraising activity related cost (paragraph G24.60): donations, gifts, grants and similar transfers; commercial and trading; and investment management.</p> <p>Costs are attributed on a full cost basis including apportioned shared and support costs (paragraph G24.67).</p> <p>Investment management costs are calculated where these are deducted from investment income (paragraph G24.71).</p>	<p>The SORP uses a different term expenditure on raising funds due to the close association of fundraising costs with public campaigns and appeals for funds (module 4 paragraph 4.44).</p> <p>The SORP has eight types of cost of raising funds (paragraph 4.45) which could be subsumed into the INPAG classification.</p> <p>The SORP has the same requirement where expenditure is classified on an activity basis of full cost attribution (module 8 paragraph 8.3).</p> <p>Although the SORP has the same approach to identifying investment management costs it has a pragmatic exemption for charges relating to collective investment schemes (paragraph 4.48).</p>
<p>Section 27 – Impairment of assets</p> <p>This section applies to most incidents of impairment. Impairment is defined as happening where (paragraph G27.1): 'An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount.'</p> <p>In respect of inventories these are assessed each reporting date 'comparing the carrying</p>	<p>Module 12 of the SORP considers impairment and has the same definition (paragraph 12.1).</p> <p>Stock (inventories) is referenced in SORP module 10 with stock held for sale measured</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>amount of each item of inventory at the selling price less costs to complete and sell (paragraph G27.2) or for inventories held for distribution at no or nominal consideration 'the cost adjusted for any loss of service potential (adjusted cost) shall be used instead' (paragraph G27.3).</p> <p>For assets other than inventories (paragraph G27.5) the general principle is that if: 'the recoverable amount of an asset is less than its carrying amount, the NPO shall reduce the carrying amount of the asset to its recoverable amount'.</p> <p>INPAG offers some examples of indicators of impairment (paragraph G27.9) and notes that impairment may need an asset's useful economic life to be reviewed (paragraph G27.10).</p> <p>INPAG defines the recoverable amount as (paragraph G27.11): 'The recoverable amount of an asset or an operating unit is the higher of its fair value less costs to sell and its value in use'.</p> <p>INPAG defines value in use by reference to cash flows (paragraph 27.15) or its service potential. Where cash flows are used allowance is made for the time value of money (paragraph G27.20).</p> <p>The asset of goodwill is treated differently since it cannot be measured directly (paragraph G27.24): 'Consequently, the fair value of goodwill must be derived from measurement of the fair value of the operating unit(s) of which the goodwill is a part'.</p> <p>Except for goodwill an impairment loss can be reversed. Inventories (paragraph G27.4): 'the NPO shall reverse the amount of the impairment (ie the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less</p>	<p>at the lower of cost and net realisable value (paragraph 10.60) and for stocks used as part of a charitable activity net realisable value is based on service potential with only damaged or obsolete stock written down to nil (paragraph 10.61).</p> <p>The general principle is that an impairment loss is recognised if the recoverable amount of an asset is less than its carrying amount (paragraph 12.4).</p> <p>The SORP also offers indicators of impairment (paragraph 12.15) but it notes that having spare capacity in providing charitable services may be necessary and need not indicate impairment in respect of an asset's service potential (paragraph 12.16) and offers depreciated replacement cost as a valuation method (paragraph 12.13). The SORP also notes the implication for the life of an affected asset (paragraph 12.19).</p> <p>The SORP has the same definition of recoverable amount (paragraph 12.5).</p> <p>The SORP similarly distinguishes between cash flows and service potential when identifying the value in use (paragraph 12.9) with an allowance for the time value of money (paragraph 12.11).</p> <p>The SORP refers to goodwill in module 24 noting it should be reviewed for impairment (paragraph 24.32) and module 12 notes that an impairment of goodwill cannot be reversed (paragraph 12.20).</p> <p>Other than as noted before (paragraph 10.60) the SORP makes mention of stock in module 12.</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>costs to complete and sell or adjusted cost'. For a reversal on other assets the NPO shall determine whether all or part of the prior impairment loss should be reversed (paragraph G27.29).</p> <p>A reversal of impairment cannot increase the carrying amount of the asset above the carrying amount 'that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years' (paragraph G27.30). Any related depreciation charge is recalculated (paragraph G27.30) over the asset's remaining useful economic life.</p>	<p>The SORP has a similar approach to reversing impairment (paragraph 12.20).</p> <p>The SORP has a similar approach to capping the reversal of impairment (paragraph 12.20). The SORP has the same approach to adjusting the charge for depreciation (paragraph G12.19).</p>
<p>Section 28 – Employee benefits</p> <p>A limited reconsideration of this section relates to modifying the disclosure of short term employee benefits.</p>	<p>The topic of employee benefits was first considered in ED2 and the proposed change to one part of the guidance.</p>
<p>Section 30 – Foreign currency translation</p> <p>The change proposed is requiring the use of a spot rate where a currency is not exchangeable (paragraph G30.5A).</p> <p>The application guidance is amended to provide guidance on exchangeability and step 1 is to identify whether a currency is exchangeable. Paragraph AG30.28 states: 'If an NPO is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.'</p> <p>Step II is to identify a spot rate if a currency is not exchangeable with two measures recommended- an observed rate (paragraph AG30.38) or by estimation (paragraph AG30.43).</p>	<p>The topic of foreign currency translation was first considered in ED2 and the proposed change to one part of the guidance.</p> <p>Foreign exchange controls do not apply to either the UK or the euro currency zone and so this issue of exchangeability is not one that is considered in section 30 of FRS102 but reference is made to use of an approximate rate (paragraph 30.20).</p>
<p>Section 33 – Related party disclosures</p> <p>INPAG has a definition of related party that has two parts (paragraph G33.2): 'a person or a close member of that person's family is related to a reporting NPO if that person' and</p>	<p>Module 9 of the SORP considers the disclosure of trustee and staff remuneration, related party and other transactions but the definition of a related party is found in</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>'an entity is related to a reporting NPO'.</p> <p>In regard to a person there are four categories under sub-paragraph G32(a):</p> <p>(i) is a member of the key management personnel of the reporting NPO or of an entity that controls the reporting NPO;</p> <p>(ii) is a member of the reporting NPO's governing body (paid or not) which provides oversight of the NPO's activities;</p> <p>(iii) has control or joint control over the reporting NPO; or</p> <p>(iv) has significant influence over the reporting NPO.</p>	<p>Appendix 1: Glossary of terms.</p> <p>The SORP definition is a blend of charity law- section 350 of the Charities Act 2011 and the definition found in FRS102 Appendix I Glossary. The SORP definition is also in two parts- the natural person and entity.</p> <p>The SORP definition of a natural person is more detailed with 12 categories. Using the SORP's reference numbering, the SORP's requirements are shown where the category is broadly equivalent to INPAG then:</p> <p>C2. an officer, agent or a member of the key management personnel of the charity</p> <p>A. any charity trustee and custodian trustee</p> <p>An individual who exercises control but is not a formal trustee is treated as a de-facto trustee (module 9 paragraph 9.3).</p> <p>C6. a person, or a close member of that person's family, who has significant influence over the reporting charity</p> <p>Additional categories of natural person not mapping to the INPAG definition are:</p> <p>B. a person who is the donor of any land to the charity (whether the gift was made on or after the establishment of the charity); and</p> <p>C. Any person who is:</p> <ol style="list-style-type: none"> 1. a child, parent, grandchild, grandparent, brother or sister of any such trustee (A) or donor (B) of land; 2. – 3. the spouse or civil partner of any of the above persons (A, B, C1 and C2); 4. carrying on business in partnership with any of the above persons (A, B, C1, C2 and C3); 5. a person, or a close member of that person's family, who has control or joint control over the reporting charity; 6. –

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>In respect of an entity there are eight categories under sub-paragraph G32(b):</p> <p>(i) the entity and the reporting NPO are members of the same group (which means that each controlling NPO, and any controlled entity, is related to the others).</p> <p>(ii) the entity is an associate or jointly controlled by the reporting NPO (or an associate or jointly controlled entity of a member of a group of which the reporting NPO is a member).</p> <p>(iii) both entities are jointly controlled entities of the same third entity.</p> <p>(iv) one entity is a jointly controlled entity of a third entity and the other entity is an associate of the third entity.</p> <p>(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting NPO or an entity related to the reporting NPO. If the reporting NPO is itself such a plan, the sponsoring employers are also related to the reporting NPO.</p> <p>(vi) the NPO is controlled or jointly controlled by a person identified in (a).</p> <p>(vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting NPO or to the parent of the reporting NPO.</p> <p>(viii) a person identified in (a)(iii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).</p> <p>INPAG clarifies that four groups are not necessarily related parties (paragraph</p>	<p>'Close member of a person's family' refers to:</p> <ol style="list-style-type: none"> a. that person's children or spouse; b. the children, stepchildren or illegitimate children of that person's spouse or domestic partner; c. dependants of that person; and d. that person's domestic partner who lives with them as husband or wife or in an equivalent same-sex relationship. <p>The SORP classifies the following entities, which are not 'natural persons', as related parties of a reporting entity (including a reporting charity) if any of the following conditions apply:</p> <ul style="list-style-type: none"> • the entity and the reporting charity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); • one entity is an associate or joint venture of the other entity (or a member of the group in which the other entity is the parent or a member); • both entities are joint ventures of the same third entity; • one entity is a joint venture of a third entity and the other entity is an associate of the third entity; • the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity; • an entity that is controlled or jointly controlled by a person, or two or more persons, identified in A, B or C; • the reporting charity provides/receives key management personnel services to/from the entity; • an entity in which a person, or two or more such persons, identified in A, B or C, taken together, have a substantial interest or significant influence over the entity; <p>(Disclosure of control of a charity where that charity is a subsidiary of a parent entity is considered in module 26 of the SORP.)</p> <p>The Glossary includes a similar reassurance</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>GG33.4). ‘...the following are not necessarily related parties: (a) two NPOs simply because they have members of key management personnel in common; (b) two parties simply because they share joint control over a jointly controlled NPO; (c) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an NPO or participate in its decision-making process): (i) providers of finance; (ii) trade unions; (iii) public utilities; or (iv) government departments and agencies. d) a customer, grant provider, supplier, franchisor, distributor or general agent with whom an NPO transacts a significant volume of business, merely by virtue of the resulting economic dependence.</p>	<p>in respect of a connection with another charity: ‘A charity is not necessarily related to another charity simply because a particular person happens to be a trustee of both. It will only be ‘related’ if the relationship means that one charity, in furthering its charitable aims, is under the direction or control of the trustees of another charity.’</p>
<p>Section 34 – Specialised activities</p> <p>This section deals with agriculture, exploration for and evaluation of mineral resources, and service concession arrangements.</p> <p>Agriculture – biological assets are recognised at fair value if practicable but otherwise the cost model is used (paragraph G34.2).</p> <p>Exploration for and evaluation of mineral resources- these assets are measured on initial recognition at cost (paragraph G34.5) and classified as either: property, plant and equipment or intangible assets and treated accordingly. INPAG offers some indicators of impairment (paragraph G34.18).</p> <p>Service concession arrangements- the operator receives either a financial asset or an intangible asset for which the operator makes a charge to the public or users of the item (paragraph G34.22) and the operator shall recognise, measure and disclose revenue (paragraph G34.25).</p>	<p>The SORP does not provide guidance on these areas but section 34 of FRS102 does.</p> <p>FRS102 takes the same approach to recognition and measurement (paragraphs 34.3 to 34.3B).</p> <p>FRS102 refers to IFRS6 where extractive activities are undertaken. IFRS6 provides for initial recognition at cost (paragraph 8) with measurement subsequently by use of the revaluation or cost models (paragraph 12). IFRS6 also offers some indicators of impairment (paragraph 20).</p> <p>The context for FRS102 is that of infrastructure assets (paragraph 34.12) under lease (paragraph 34.12E) and for those assets where there is an operator it has the same distinction between financial asset and intangible asset (paragraph 34.13) and revenue recognition (paragraph 34.16).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>Section 36 – Fund accounting</p> <p>‘This Section sets out the characteristics of a fund for the purposes of INPAG and how each fund shall be presented in the general purpose financial statements’ (paragraph G36.1).</p> <p>Paragraph G36.3 outlines four main ways in which a fund may come to exist: ‘Most commonly it will be:</p> <ul style="list-style-type: none"> (a) an operating choice by an NPO about how it manages itself; (b) a requirement as a result of jurisdictional law relating to NPOs; (c) a legal or equivalent requirement arising from arrangements with grantors or donors; or (d) a result of the publicly communicated actions by the NPO that have created reasonable expectations that resources will be used for a specific purpose’. <p>In defining a fund either of two criteria must be met (paragraph G36.4): ‘where:</p> <ul style="list-style-type: none"> (a) there is a legal or equivalent requirement to separately track resources and the use of those resources; or (b) there are reasonable expectations by an 	<p>The SORP has the same distinction between restricted and unrestricted funds (module 2) and has common ground in noting the effect of a legal requirement (paragraphs 2.1, 2.5 and 2.8) and solicitation statements (paragraph 2.8) but it divides restricted funds between endowment and restricted income funds (paragraphs 2.3 and 2.11); this is a distinction INPAG does not make.</p> <p>In section 2 (ED1) INPAG defined restricted funds as (paragraph G2.74): ‘Funds with restrictions are to be used by an NPO when there are externally imposed funding or other legal arrangements placed on the NPO by a resource provider that restrict the financial resources provided to be expended, invested or retained by the NPO for a specific purpose or activity. A breach of these funding or other legal requirements may require the NPO to return the financial resources to the party that originally provided them and/or result in the NPO facing censure from regulators for the misuse of these resources’ but not here, or in section 36, or in the glossary (ED3) does it refer to endowed funds or endowment.</p> <p>Fund accounting in the UK and Ireland is framed by the applicable trust law (for example paragraphs 2.1, 2.8 and 2.10). The law can dictate an accounting treatment which is the case in trust accounting but in some instances, for example contract law, it might not (SORP module 5 paragraph 5.7) Considering the four main ways that INPAG anticipates where a fund could come about</p> <ul style="list-style-type: none"> a) Designations are found in the SORP too (paragraph 2.7) b) Law is noted throughout module 2 (for example paragraph 2.1) c) Donor imposed restrictions (paragraph 2.8) d) Terms of an appeal for example solicitation statements (paragraph 2.8) <p>The two INPAG criteria are consistent with the SORP (see above).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>individual stakeholder or a group of stakeholders that resources used for a specific set of activities will be tracked’.</p> <p>In recharging a fund, paragraph G36.7 provides that: ‘the income, expenses, assets and liabilities recorded against each fund shall only relate to the activities undertaken to further the specific purposes of the fund. These can include direct costs, shared costs and support costs...’</p> <p>In terms of presentation (paragraph 36.8): ‘...it shall be presented as either part of funds with restrictions or funds without restrictions’.</p> <p>In terms of chargeable expenses or a deficit on restricted funds (paragraph 36.12) holds that: ‘A restricted fund shall show all of the transactions related to its specific purpose’ and ‘negative balances shall be reviewed at the reporting date to determine if it is a temporary shortfall that will be addressed in a future reporting period or whether it is a permanent shortfall that needs to be addressed by the NPO transferring funds from funds without restrictions’.</p> <p>In respect of unrestricted funds (paragraph G36.14): ‘Funds without restrictions are those funds that can be used at the discretion of the governing body of an NPO to further its missional purposes. The general fund is a fund without restrictions.’</p> <p>Unrestricted funds can be designated (paragraph 36.14).</p> <p>In respect of some gains (paragraph 36.17): ‘...that result from the application of other sections of INPAG, such as the revaluation of property, plant and equipment, form part of an NPO’s funds’ but are ‘shown separately to funds with restrictions and funds without restrictions’.</p> <p>Guidance is given on the presentation of any legally permissible transfers between funds (paragraphs G36.18 to 36.20).</p>	<p>Full cost recovery against a fund is consistent with the SORP (paragraph 2.15) except in the case of endowed funds where only certain costs may be charged (paragraph 2.21) or if recovery is otherwise prohibited (module 8 paragraph 8.7). The presentation proposed by INPAG is consistent with the SORP (paragraph 2.27 and see also module 4 paragraph 4.9 and module 10 paragraph 10.91).</p> <p>In terms of negative balances/ deficits on restricted funds the SORP (paragraph 2.15) has a similar stance distinguishing a temporary from a structural deficit but it treats this as a matter in the trustees annual report rather than the notes to the accounts (see module 1 paragraph 1.24).</p> <p>The INPAG definition of unrestricted funds is consistent with the SORP (paragraph 2.1) but the SORP focuses on charitable purposes. Designations are permitted by the SORP (paragraph 2.7).</p> <p>In regard to gains the SORP also requires these to be considered part of the fund to which they relate (module 10 paragraph 10.92) and only in the case of a pension reserve is it always to be shown separately (paragraph 10.93). However if the charity is a charitable company then company law requirements apply (module 15) requiring revaluation reserves (paragraph 15.22) and fair value reserves (paragraph 15.24) to be shown separately.</p> <p>The SORP also considers transfers between funds (paragraph 2.26) but has more criteria reflecting trust law.</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>Application guidance The application guidance includes a flowchart (Figure AG36.1) showing the decision tree for applying the criteria in the guidance 36.3 and 36.4.</p> <p>It affirms accounting records must be kept (paragraph AG36.2) and in terms of grant reporting whether constituting a separate fund or not (paragraph AG36.3): ‘an NPO is able to identify non-current assets, work in-progress, and other grant specific asset and liabilities associated with each grant’.</p> <p>In respect of funds from grants in terms of restrictions the application guidance states that Enforceable Grant Arrangements limit the NPO’s operational choice (AG36.6). EGAs form a part of restricted funds because (AG36.19): ‘An EGA that meets the criteria to be a fund is expected to be presented as part of funds with restrictions because of the obligations in the grant arrangement.’</p> <p>Other Funding Arrangements are considered on a substance over form basis (AG36.7)</p> <p>In soliciting funds (AG36.8) an NPO establishes a restricted fund when the terms of the appeal ‘creates a valid/reasonable expectation and places a specific moral and/or ethical obligation on the NPO to treat the resources as part of funds with restrictions’.</p> <p>In allocating costs (AG36.10) these are the ‘direct, shared and support costs associated with the activities undertaken’ and are allocated ‘even where grant arrangements limit their eligibility to be recovered as part of the grant arrangement’. Also (AG36.12) ‘where there is a realistic expectation that future income will be received to cover a shortfall or that additional expenses will be incurred, the balance shall be carried forward’ but (AG36.14) ‘where future income is not likely to be received to cover the shortfall, the NPO shall make good the shortfall from its own resources’. For non-current assets upon its acquisition it is reclassified if its future use is not restricted (AG36.15).</p>	<p>The SORP has a flowchart (module 2 Figure 1).</p> <p>The SORP refers to proper administration (paragraph 2.2).</p> <p>The SORP does not have a comparable concept to EGAs instead it refers to performance related grants (module 5) but it does not have the premise that these will always be restricted (paragraph 5.17) and instead focuses on whether the grant is for a particular charitable purpose (paragraph 5.18).</p> <p>Substance over form is the basis of UK-Irish GAAP (FRS 102 section 2 paragraph 2.8) and SORP module 3 paragraph 3.11),</p> <p>The SORP also refers to the terms of an appeal giving rise to restricted funds (paragraph 2.8).</p> <p>The SORP looks for full cost recovery (paragraph 2.15 and also module 8 paragraph 8.7), except where limited by law (paragraph 2.21 and module 8 paragraph 8.7).</p> <p>In terms of a shortfall the SORP has the same approach (paragraph 2.15).</p> <p>In regard to fundraising appeal funded non-current assets the SORP has a similar approach in terms of any restriction potentially being removed upon acquisition (paragraph 2.12).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>In respect of unrestricted funds the application guidance states that (AG33.6) an 'NPO's governing body to designate some of its unrestricted funds for a specific purpose shall not create a fund with restrictions' and it notes that (AG36.7) 'where the grantor expresses a form of non-binding preference as to the use of the funds, which falls short of imposing a legal restriction. Where this does not create a reasonable expectation on the use of the resources by the stakeholder, the funds shall be included as part of funds without restrictions'.</p>	<p>In terms of designations (paragraph 2.7) and non-binding wishes (paragraph 2.9) the SORP has the same approach.</p>
<p>Section 37 – Supplementary information</p> <p>The guidance (paragraph G37.1) cross refers to the practice guide relating to supplementary statements: 'Section 37 specifies the supplementary information that shall be disclosed by NPOs that produce one or more Supplementary statements in accordance with INPAG Practice Guide 1– Supplementary statements.' It also states that (paragraph G37.2): 'Supplementary information is the additional information not presented elsewhere in the general purpose financial statements prepared under INPAG that is required to enable the preparation of a whole of NPO Supplementary statement. The information shall conform to the format of INPAG Practice Guide 1 – Supplementary statement.'</p> <p>In preparing supplementary statements the NPO shall adhere to 'relevant INPAG recognition and measurement principles' (paragraph G37.4), use the same 'whole of NPO reporting boundary' (paragraph G37.6), and 'disclose all the classes of income and expenses that are required by the prescribed format in INPAG Practice Guide 1 – Supplementary statements' (paragraph 37.10),</p>	<p>FRS102 does not consider supplementary information but in respect of for-profit entities it does cross refer to FRS104 in respect of interim financial reports (see section 3 paragraph 3.25).</p> <p>The Practice Guide 1 specifically considers donor reporting needs only. If this is the intention then to avoid uncertainty it might therefore be helpful to reassure preparers if section 37 of INPAG affirmed that other forms of supplementary statement not explicitly covered by the Practice Guide fall outside of the scope of this section.</p> <p>Such additions might be statutory reporting requirements such as an Income and Expenditure account for a charitable company, regulatory requirements for example reporting on fundraising activities, public benefit reporting and legal requirements requiring certain formats of reporting for example National or Heritage Lottery funded projects in the UK over which a charity has no discretion. Also scoping out other forms of discretionary reporting such as sustainability reporting, environmental social governance reporting, adoption of a governance code.</p> <p>The heading of the Practice Guide 1 is: 'Supplementary statements of income, expenses, inventory and capital costs' and so any reporting of this kind would have to comply with the Guide for a charity to comply with section 37. This is a broad requirement</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
	<p>given donors do enjoy discretion in specifying their specific reporting needs that may differ to that of the Guide. A clarification that it only applies where a donor specifies an NPO adheres to INPAG in preparing its supplementary statement(s) would be helpful.</p> <p>(Section 35 (ED1) dealt with narrative reporting and in this respect did reassure that additional reporting is permitted (paragraph 35.2): 'Where an NPO is able to go beyond this minimum requirement and present additional information to meet the needs of users of its general purpose financial report, it may do so provided that this minimum requirement has been met.')</p>
<p>Section 38 – Transition to INPAG</p> <p>The section applies when adopting INPAG for the first time (paragraph G38.3).</p> <p>Paragraph 38.4 defines first time adoption as: 'An NPO's first financial report that conforms to this Guidance is the first annual financial report in which the NPO makes an explicit and unreserved statement in that financial report of compliance with INPAG.'</p> <p>Adherence to narrative reporting is not immediately required- two year transition is allowed following which in all respects the narrative reporting must also comply with INPAG (paragraphs 38.5 and 38.6). Compliance in all instances requires (paragraph G38.7) 'a complete set of financial statements'.</p> <p>Comparatives are required to effect first time adoption (paragraph 38.8): '...an NPO's date of transition to INPAG is the beginning of the</p>	<p>To be able to prepare financial statements and narrative (trustees' annual report/ directors' report) using INPAG, INPAG must first be adopted into UK-Irish GAAP and approved by the Financial Reporting Council. Also the accounting and reporting directions for charities for each UK-Ireland jurisdiction would have to be updated to refer to INPAG. In respect of charitable companies due to the framing of INPAG changes would need to be effected to the Companies Act in the UK and also the Republic of Ireland to permit the renaming of the Income and Expenditure account to align with INPAG and appropriate changes made to the accounting and reporting regulations to permit the use of INPAG for charitable companies.</p> <p>The Charities SORP applies UK-Irish GAAP standard FRS102 and is silent about first adoption instead cross referring in its introduction (paragraph 19) to FRS102. This issue is considered in section 35 of FRS102- Transition to this FRS.</p> <p>FRS102 does not consider narrative reporting but it does define compliance as a complete set of financial statements (paragraph 35.5).</p> <p>FRS102 also requires comparatives (paragraph 35.6).</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>earliest period for which the NPO presents full comparative information in accordance with the financial statement requirements of this Guidance in its first financial report.'</p> <p>Normally any resulting adjustments to align with the requirements of INPAG (paragraph 38.9) are taken to unrestricted funds which INPAG refers to as the general Fund (paragraph 38.10): 'Consequently, an NPO shall recognise those adjustments directly in the general fund (unless they relate to funds with restrictions or another category of net assets) at the date of transition to this Guidance.'</p> <p>For certain items where adopting INPAG would restate comparative items such restatement is prohibited and the charity would continue its current accounting policy for these items (paragraph G38.11) for example loans at below market rate. In most cases prospectively INPAG is applied to these items eg new contracts with customers and hedge accounting.</p> <p>INPAG also offers some concessions allowing restatement not to be required upon first adoption (paragraph G38.12) eg business combinations or it permits a carrying value to be the deemed cost.</p> <p>Also pragmatically INPAG provides that (paragraph G38.13): 'If it is impracticable for an NPO to provide any of the disclosures required by this Guidance, including those for comparative periods, the omission shall be disclosed.'</p> <p>In ED1 INPAG did set out how to handle matters not addressed by the guidance (section 10 paragraph G10.4).</p>	<p>FRS102 does not explicitly consider charities in respect of restating comparatives but the SORP does see module 3 paragraphs 3.32 to 3.34 deals with changes to accounting policy. The INPAG stance that unless an item relates to restricted funds, an adjustment is taken to unrestricted funds is consistent with the SORP (module 2 paragraphs 2.15 and 2.21).</p> <p>FRS102 takes the same approach in prohibiting retrospective application for some items (paragraph 35.9).</p> <p>FRS102 also permits some exemptions to restatement (paragraph 35.10).</p> <p>FRS102 has the same pragmatic exemption if it is impractical to adjust an item on transition (paragraph 35.11).</p> <p>There is no cross reference to how to treat items not explicitly covered by the first release of the INPAG. Page 4 of ED3 refers to this issue: 'To complete the development of NPO-specific accrual-based financial reporting guidance by 2025, within the resources available, stakeholders were asked for their views on the priority topics to be addressed in the first version of INPAG.'</p> <p>FRS102 in its section on Accounting, Policies, Estimates and Errors does address this issue (section 10 paragraph 10.4) and</p>

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	takes a similar approach to this issue.
<p>Part 3 – Implementation guidance (including illustrative financial statements- annex A)</p> <p>Additional advice in the form of illustrative examples is given on the following topics:</p> <ul style="list-style-type: none"> • Fair value measurement Updated • Business combinations and goodwill • Leases • Part II Classification of expenses • Part III Fundraising costs • 33 Related party disclosures • 36 Fund accounting • 37 Supplementary information <p>Annex 1 Illustrative financial statements</p> <ul style="list-style-type: none"> • Statement of Income and Expenses • Statement of Financial Position • Statement of Changes in Net Assets • Statement of Cash Flows • Notes to the financial statements 	<p>The SORP does not contain this kind of implementation guidance; instead a number of resources are made available on the SORP website in the form of: Information Sheets, Help Sheets, and Example Trustee Annual Reports and Accounts: https://www.charitycorp.org/home</p> <p>The FRC also publishes Staff Fact Sheets on a number of topics: https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/staff-factsheets/</p>
<p>Practice Guide 1 Version 1 Supplementary Statements</p> <p>The aim of the guide (page 3) is: ‘The objective of the Practice Guide is to enable the presentation of key financial information about a specific activity, project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes, as well as meaningful to primary users through being reconcilable to general purpose financial reports produced under INPAG.’</p> <p>The heading of the guidance is: ‘Supplementary statements of income, expenses, inventory and capital costs’.</p> <p>It provides that (paragraph SS3): ‘All information contained in the Supplementary statement and the accompanying notes must be reconcilable to an NPO’s general purpose financial statements and/or underlying accounting records.’</p> <p>In respect of supplementary statements a format is specified (see table and paragraph</p>	<p>This is a separate document to INPAG but is referred to by section 37 of INPAG.</p> <p>The SORP has no equivalent solution since GAAP considers reporting to the general reader (FRS 102 Overview paragraph (v) and SORP introduction paragraph 11).</p> <p>The guide would affect those UK-Irish charities providing donor reporting on those topics covered by the Guide. It would require donors to accept the INPAG version of reporting or if not this will be a departure from the INPAG and so require disclosure.</p>

INPAG treatment	Comments- comparison with UK-Ireland 2021 GAAP
<p>SS5) and the guide states: ‘This format may not be varied, but where an NPO has no material transactions against any line item, this may be omitted from the Supplementary statement’.</p> <p>The statement will adhere to the principles of fund accounting (paragraph SS9): ‘Income and expenses presented in INPAG as part of funds with restrictions shall be presented in a separate column to income and expenses that are presented in INPAG as part of funds without restrictions, where both are included in a single Supplementary statement.’</p> <p>The treatment of income (paragraph SS10) and expenses (paragraph SS11) will adhere to INPAG and it specifies 7 headings for the categorisation of expenses:</p> <ul style="list-style-type: none"> • employment • travel and subsistence • supplies and materials • running costs, external services and other • services in kind and gifts in kind • grants • support costs. <p>It sets out how to treat ineligible items that a donor is not funding (paragraph SS16) and requires that: ‘...the Supplementary statement shall be reconciled to the general purpose financial statements’.</p> <p>It considers how to treat inventories (paragraph SS18) and report on acquiring capital items (paragraph SS20) and the handling of depreciation on capital items. The guide also specifies what notes are provided to a Supplementary statement (paragraphs SS22 to SS24).</p> <p>Supplementary statements can be included with the financial statements (paragraph SS25) and the guide specifies how this is done: ‘An NPO may include any Supplementary statement(s) that it has prepared as Annex B to the general purpose financial statements, to appear after the final note in these.’</p>	

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<p>Annex B specifies number of formats: B1 – Donor or other stakeholder currency presentation B2 – Against agreed budget presentation B3 – Multi-year presentation B4 – Split reporting period presentation B5 – Multiple grants presentation B6 – Funds without restrictions presentation</p> <p>In respect of audit (paragraph SS26): ‘If a Supplementary statement and accompanying notes are audited, this shall be noted in the audit report. Where a Supplementary statement is unaudited, this should be clearly marked on both the Supplementary statement and in the audit report.’</p> <p>The guide also includes a solution for cash based reporting in Annex C – Optional cash reconciliation presentation.</p>	

Part C- Responding to the INPAG ED and following the IFR4NPO project

The International Financial Reporting for Non-Profit Organisations (IFR4NPO) is a global initiative to develop guidance for non-profit financial reporting. You can learn more about the project and sign up for newsletters by looking at the website: <https://www.ifr4npo.org/about/>

The IFR4NPO carried out a consultation exercise in January 2021 and following that exercise identified 20 topics for which guidance needed to be developed for NPOs. Given the available resources, the initial INPAG will cover a more limited selection of topics with future iterations of INPAG intended to pick up additional topics.

A question for preparers currently using GAAP is whether the differences identified in parts A and B of this paper in applying a for-profit based framework to non-profits are so significant that if future GAAP were aligned with INPAG it would pose an issue for charities, accountants and practitioners and their non-profit clients. Also it cannot be taken as a given that where the proposed approach taken by INPAG aligns with GAAP that this will remain the case unless practitioners engage by supporting the aligned approach in their consultation feedback.

The first exposure draft on the INPAG guidance was issued in November 2022. The second consultation exposure draft was issued on 26 September 2023 and this third and final exposure draft was issued on 28 May 2024 with a closing date for comments of 16 September 2024. The Exposure Draft(s) can be accessed via the IFR4NPO news page which also sets out how comments can be submitted, including the option of using a web form: <https://www.ifr4npo.org/news/>

IFR4NPO has developed a number of explainer videos on the main topics along with recordings of webinars held to discuss these topics in order to assist accountants respond to the ED exercise and these can be accessed via their website: <https://www.ifr4npo.org/ed3/>

About the author of this paper

The author of this paper, Nigel Davies FCCA, is a member of the Practitioners' Advisory Group on the IFR4NPO and he was, until January 2022, Joint Chair of the Charities SORP Committee and of the SORP-making body responsible for the development of the Charities SORP. He was also the principal author of the 2015 ACCA Companion Guide for Not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) which provides advice to non-profits on how to report under the current IFRS for SMEs.

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